



Highlights and Analysis of the Governor's May Revision of the 2004-05 Budget

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Overview of the 2004 May Revision

A Budget That Does Not Increase Taxes. The May Revision refines the Governor's Budget proposed in January, with **no tax increases**, increased revenue estimates, and less reliance upon Economic Recovery Bond (ERB) funds for 2004-05. The total two-year estimate of the state operating deficit has fallen from the \$16.2 billion reported in January, to \$15.1 billion in the May Revision, as reflected in Table 1 below. Of this amount, \$14.2 billion is the anticipated operating deficit for 2004-05, with a \$919.1 million operating deficit estimated in 2003-04. Although reliance upon funds from the ERB/Loans category appears slightly higher than was proposed in January, the May Revision actually **relies upon \$1 billion less in ERB funds** than was originally proposed in the Governor's Budget. The increase in the ERB/Loans category below is the result of other loans proposed as part of the May Revision. The May Revision proposes \$5.4 billion in spending reductions and \$2.9 billion in cost avoidance, as opposed to \$5.9 billion in reductions and \$3.9 billion in cost avoidance as proposed in the January Governor's Budget.

Table 1

Solutions by Category		
(Dollars in thousands)	Jan 10 Budget	May Revision
Cuts	\$5,938,680	\$5,438,267
Fund Shifts	\$1,084,679	\$1,701,575
Cost Avoidance	\$3,930,795	\$2,985,876
ERB/Loans	\$1,827,400	\$2,033,926
Debt Service	\$1,256,000	\$1,256,000
Transfers	\$1,246,638	\$756,084
Pension Reform Package	<u>\$949,747</u>	<u>\$949,747</u>
Totals	\$16,233,939	\$15,121,475

While General Fund revenues are expected to be below the Governor's January Budget by \$36 million in 2003-04, they are expected to be above the Governor's Budget by \$281 million in 2004-05 (see Table 2). However, the May Revision includes significant increases in both General Fund revenues and General Fund savings beyond what is listed in Table 2. Additional other revenue sources reported in the May Revision include over \$2.2 billion in increased General Fund resulting from a number of prior year adjustments, as well as a proposal to tap punitive damages settlements (\$450 million), which is described later in this overview. New savings proposals identified in the May Revision include \$464 million in savings as a result of renegotiating state employee collective bargaining agreements, a new "Strategic Sourcing" proposal (\$96 million), a proposal to reform parole accountability (\$85 million), and a proposal to reform the state property asset management process (\$50 million).

Table 2

2004-05 General Fund Revenue Sources			
(Dollars in millions)	<u>Jan 10 Budget</u>	<u>May Revision</u>	<u>Difference</u>
Personal Income Tax	\$38,043	\$38,602	+\$559
Sales Tax	\$25,022	\$24,605	-\$417
Corporation Taxes	\$7,609	\$7,967	+\$358
Highway Users Tax	\$0	\$0	\$0
Motor Vehicle Fees	\$16	\$16	\$0
Insurance Tax	\$2,078	\$2,170	+\$92
Estate Taxes	\$136	\$135	-\$1
Liquor Tax	\$294	\$303	+\$9
Tobacco Taxes	\$115	\$118	+\$3
Other	<u>\$3,094</u>	<u>\$2,772</u>	<u>-\$322</u>
Total	\$76,407	\$76,688	+\$281

While the May Revision projects significantly increased revenues and savings for 2004-05, it also restores a significant number of the reductions proposed in the Governor's Budget in January, resulting in a net increase of \$1.5 billion in total General Fund expenditures for 2004-05 (Table 3). The greatest increase in total programmatic funding is in Health and Human Services (\$596 million), followed by Youth and Adult Correctional (\$483 million). The \$4 billion in changes to funding for the Vehicle License Fee and K-14 Education are part of an administration funding proposal that shifts local funding sources from Vehicle License Fee revenues, to local property tax revenues, and it is part of a larger agreement with local government that is described later in this document.

Table 3

2004-05 General Fund Expenditures in Major Program Areas			
(Dollars in millions)	<u>Jan 10 Budget</u>	<u>May Revision</u>	<u>Difference</u>
Legislative, Judicial, and Executive	\$2,616	\$2,725	+\$109
State and Consumer Services	\$478	\$508	+\$30
Business, Transportation, and Housing	\$375	\$376	+\$1
Resources	\$939	\$974	+\$35
Environmental Protection	\$70	\$69	-\$1
Health and Human Services	\$24,600	\$25,196	+\$596
Youth and Adult Correctional	\$5,732	\$6,215	+\$483
K-14 Education	\$33,152	\$37,274	+\$4,122
Debt Service Savings (ERAF)	-\$1,256	-\$1,136	+\$120
Higher Education	\$6,058	\$5,990	-\$68
Labor and Workforce Development	\$86	\$85	-\$1
Vehicle License Fee Backfill	\$4,062	\$0	-\$4,062
STRS Contribution	\$1,057	\$1,057	\$0
General Government	\$1,105	\$257	-\$848
Use of Deficit Recovery Fund	<u>-\$3,012</u>	<u>-\$2,012</u>	<u>\$1,000</u>
Total	\$76,062	\$77,578	+\$1,516

General Fund Revenue Estimates

General Fund Revenue Forecast. General Fund revenues are expected to be below the Governor's January Budget by \$36 million in 2003-04 and above the Governor's Budget by \$281 million in 2004-05. Over the two years, the increase is approximately \$245 million. The May Revision forecast for major taxes has improved since the Governor's Budget, with revenues up \$780 million in 2003-04 and up \$604 million in 2004-05, for a two year change of \$1.4 billion. Strong April Personal Income Tax payments and consistent growth in withholding indicate an improving economy. Over the two years Corporation tax receipts are also up \$185 million over the Governor's Budget forecast.

Personal income tax and corporations tax gains totaling \$945 million in prior year funds improve the General Fund condition in the May Revision. Most of these gains are attributable to the Voluntary Compliance Initiative (VCI) which made numerous changes to curb abusive tax shelters. The VCI permitted taxpayers to file amended returns and pay the tax and interest to avoid current and enhanced penalties, resulting in \$1.225 billion in personal income tax and corporations tax revenue gains for the state.

Revenue losses of \$465 million due to the Farmers Brothers Company lawsuit partially offset the positive prior year adjustments. Including the \$245 million revenue gain for 2003-04 and 2004-05 with prior year adjustments listed above results in additional revenues of \$1.2 billion since the Governor's Budget.

The May revision forecast also includes:

- Maintaining the base level of transfers to the Public Transportation Account (PTA), but specifying that any excess gasoline sales tax revenues, which would otherwise be designated as PTA spillover, will be credited to the Traffic Congestion Relief Fund as partial payment of transportation loans.
- In 2004-05, \$67 million in additional revenues are expected as a result of abusive tax shelter audit activities.
- A personal income tax and corporation tax amnesty program, similar to the VCI, for 2004-05 resulting in an estimated \$185 million increase in revenues.

The May Revision General Fund revenue estimate includes the following main components:

- **Personal Income Tax (PIT):** The personal income tax forecast has been increased by \$949 million in 2003-04 to \$36.1 billion and by \$559 million in 2004-05 to \$38.6 billion. The current year estimate does not include the revenue collection which amounted to \$738 million because these collections are attributable to several prior tax years and will be a prior year adjustment. Through April, PIT revenues were \$285 million above the Governor's Budget forecast, not including VCI. The Administration asserts that this strength is due in part to the upturn in the stock market that began in mid-2003. Total withholding is 8.8 percent above the level it was a year ago. Since withholding is a good indicator of current activity, this forecast assumes that the recent strength is real and sustainable.

Sales & Use Tax (SUT): The sales and use tax forecast has been decreased by \$105 million in the current year to \$23.6 billion, and decreased \$417 million in the budget year to \$24.6 billion. A transfer of \$175 million to the Public Transportation Account (PTA) is included in the \$417 million reduction in 2004-05. The PTA estimate has increased because the cost of fuel prices is higher than estimated in January. \$140 million of this amount will be credited to the Traffic Congestion Relief Fund. Through March, sales tax receipts are \$36 million below the 2004-05 Governor's Budget forecast. Taxable sales in the fourth quarter of 2003 were slightly below the January

forecast, and first quarter 2004 sales are also slightly lower than estimated. Taxable sales are expected to grow by 4.1 percent in 2004 and 5.2 percent growth is expected in 2005.

Proposition 57, approved by the voters in March 2004, authorized the issuance of \$15 billion in Economic Recovery Bonds to fund the accumulated state deficit. A new one-quarter cent sales tax will become effective July 1, 2004 to repay the bonds and will automatically cease when the bonds are repaid. However, the total base statewide sales tax will remain at 7.25 percent, since the local portion of the sales tax will be reduced by one-quarter cent. Revenues from the one-quarter cent sales tax are estimated at \$1.136 billion in 2004-05 and approximately \$1.3 billion annually thereafter.

- **Corporation Tax:** The corporation tax forecast has decreased by \$173 million in 2003-04 to \$7.3 billion, and increased by \$358 million in 2004-05, to \$7.9 billion. This improvement is attributable to a more positive outlook for corporate profits in 2004 after three years of flat or negative growth. The forecast anticipates continued improvement in corporate profits and proposals to increase audit activities related to abusive tax shelters.

The difference between the January forecast and the May Revision is summarized in Table 4 below.

Table 4

General Fund Revenues			
(Dollars in millions)			
<u>Fiscal Year 2002-03</u>	<u>Jan 10 Budget</u>	<u>May Revision</u>	<u>Difference</u>
Personal Income Tax	\$32,710	\$32,710	\$0
Sales & Use Tax	22,415	22,415	0
Corporation Tax	6,804	6,804	0
Other Revenues and Transfers	9,393	9,393	0
Total	\$71,322	\$71,322	\$0
<u>Fiscal Year 2003-04</u>			
Personal Income Tax	\$35,117	\$36,066	+\$949
Sales & Use Tax	23,714	23,609	-105
Corporation Tax	7,466	7,293	-173
Other Revenues and Transfers	8,330	7,623	-\$707
Total	\$74,627	\$74,591	-\$36
<i>Change from 2002-03</i>	<i>\$3,305</i>	<i>\$3,269</i>	
<i>% change from 2002-03</i>	<i>4.6%</i>	<i>4.6%</i>	
<u>Fiscal Year 2004-05</u>			
Personal Income Tax	\$38,043	\$38,602	+\$559
Sales & Use Tax	25,022	24,605	-\$417
Corporation Tax	7,609	7,967	+\$358
Other Revenues and Transfers	5,733	5,514	+\$219
Total	\$76,407	\$76,688	+\$281
<i>Change from 2003-04</i>	<i>\$1,780</i>	<i>\$2,097</i>	
<i>% change from 2003-04</i>	<i>2.4%</i>	<i>2.8%</i>	

* These figures exclude the following amounts, which will be prior year adjustments:
 \$1.225 billion from the Voluntary Compliance Initiative
 \$185 million from the tax amnesty program
 -\$465 million from Farmer Brothers Company Lawsuit

Education

The Governor's May proposal for **K-12 education** is substantially similar to his January proposal.

Proposition 98. The 2003-04 funding guarantee has increased by \$267 million since January. The Governor proposes to spend these additional funds to reduce the state's "credit card" debt to K-12 schools. The Governor's January agreement with the education coalition to suspend the 2004-05 guarantee by about \$2 billion continues in the May Revision, however the 2004-05 guarantee has increased such that an additional \$275 million is available for expenditure (see Table 5). These additional funds would provide more resources for K-12 equalization, Community College equalization, instructional materials, and deferred maintenance.

Table 5

2004-05 Proposition 98 Funding			
(Dollars in thousands)	Jan 10 Budget	May Revision	Difference
General Fund	\$29,739,800	\$34,003,307	+\$4,263,507
Local property taxes	<u>\$16,973,852</u>	<u>\$12,985,590</u>	<u>-\$3,988,262</u> a/
Total	\$46,713,652	\$46,988,897	+\$275,245
(Actual Dollars)			
K-12 P98 per-pupil funding	\$6,945	\$7,007	+\$62
K-12 total per-pupil funding	\$9,614	\$9,802	+\$188
a/ The shift between General Fund and local property taxes reflects the Governor's recent agreement with local governments to eliminate vehicle license fee tax relief payments to local governments, replace those payments with additional property tax allocations, and hold schools harmless by providing additional General Fund.			

Per-pupil expenditures. K-12 per-pupil funding is now estimated at \$7,011 for 2003-04 (up from \$6,940 in January) and \$7,007 for 2004-05 (up from \$6,945 in January).

Categorical Reform. The May Revision continues the Governor's January proposal to shift 22 categorical programs into general-purpose funding which schools may use for locally-determined priorities. Adjustments to growth and COLA rates have increased the proposed shift by about \$36 million, to about \$2.1 billion. In return for the additional spending flexibility, the Administration proposes to require enhanced public disclosure and community participation in local budgeting decisions, as detailed in its categorical reform bill, AB 2824 (Runner).

Growth and COLA. The May Revision provides full funding for anticipated K-12 growth (0.95%) and COLA (2.41%) in 2004-05. These unrestricted funds may be used by school districts for whatever purpose they deem necessary or desirable.

Emergency Loans to School Districts. The May Revision proposes a new funding mechanism for emergency loans to school districts in fiscal distress. With authority provided by pending legislation, the State Infrastructure Bank would arrange for lease-revenue debt secured by school district property, to replace direct General Fund loans. This arrangement would create a one-time General Fund savings of about \$167 million in 2004-05, including about \$60 million for the Vallejo City Unified School District

(SB 1190). Additionally, the Administration continues to propose stronger local fiscal accountability measures that it believes would help prevent future insolvencies (AB 2756, Daucher).

Special Education. The May Revision maximizes the use of Federal Funds to reduce the need for General Fund to the extent allowed by law, while maintaining the state's required maintenance of effort. In addition, it includes federal funding to significantly enhance two special education programs:

- **Mental Health Services.** The Governor proposes to increase federal funding for mandated county mental health programs for special education children by \$31 million, bringing total funding for this program to \$100 million, pursuant to legislation (likely SB 1895, Burton).
- **Special Education Students in Licensed Children's Institutions.** The May revision provides \$38.4 million in Federal Funds for a new funding formula for students with exceptional needs who reside in licensed children's institutions, pursuant to legislation (likely SB 1316, Alpert).

Child Care. The May Revision amends the Governor's January child care proposal in several ways. Most notably, it:

- Provides about \$3.6 million in one-time federal funds for anti-fraud activities to strengthen the fiscal integrity of the state's child care expenditures
- Allows all CalWORKs families to place their names on waiting lists for general child care programs as soon as they begin earning income.
- Allows CalWORKs Stage 1 and 2 families receiving cash aid as of June 30, 2004, to receive Stage 3 child care for up to one year, once they enter Stage 3.
- Allows CalWORKs Stage 1 and 2 families *not* receiving cash aid as of June 30, 2004, to receive Stage 3 child care for up to two years, once they enter Stage 3.
- Shifts Stage 3 CalWORKs families, as of June 30, 2004, into permanent child care slots. This shift would be contingent on enactment of the other proposed reforms.
- Amends the January proposal to limit child care for parents in educational or vocational programs to two years. The May proposal would, if the first 20 hours of child care eligibility derive from work activities, allow educational activities to be used as the basis for child care eligibility beyond those 20 hours, without a two-year limit.
- Expands existing after-school program grant caps to allow for increased service to 11 and 12-year olds who would otherwise be eligible for state-funded child care.

These proposed changes to the January child care reform package would result in savings of about \$120 million, compared with the \$165 million in estimated savings that would have resulted from the reforms proposed in January.

Libraries. The May Revision includes a proposed reduction of \$1.4 million to Public Library Foundation grants to local libraries. After this reduction, \$14.4 million remains available for PLF grants. At the same time, the May Revision proposes an augmentation of \$95.1 million in one-time Proposition 98 Reversion Account funding for the provision of classroom or school library materials, bringing total 2004-05 funding for this program to \$99.4 million.

Higher Education

California Community Colleges (CCCs). The May Revision increases Proposition 98 spending on the CCCs by \$128 million over the Governor's January proposal. It fully funds a 2.41% COLA, provides for 3% growth, and includes \$80 million in equalization funding. The colleges' portion of 2004-05 Proposition 98 funding is estimated at 10.25%, up from 10.04% in January.

University of California and California State University. The May Revision proposes a compact with the University of California and California State University that focuses on predictability, both in terms of student fees and funding increases for the institutions.

- **Institutional funding increases** for UC and CSU are proposed at 3% in 2005-06 through 2006-07, 4% in 2007-08, and 5% in 2008-09 through 2010-11.
- **Enrollment growth** will not be funded in 2004-05. Ten percent of entering freshmen will be offered a slot at the Community Colleges with guaranteed admission to a UC or CSU campus at the end of two years. Effective in 2005-06, enrollment growth will be funded at 2.5% for both UC and CSU.
- **Undergraduate student fees** will increase by 14% in 2004-05 and 8% in 2005-06 and 2006-07, or an average of 10 percent annually over a 3-year period. **Graduate student fees** will increase in 2004-05 by 20% at UC and by 25% at CSU, except that CSU's teacher credential candidates' fees will increase by only 20%.
- **Eligibility.** **UC** will maintain its commitment to provide a space for the top 12.5% of high school graduates and to provide access to transfer students. **CSU** will maintain its commitment to provide a space for the top one-third of graduating high school seniors and to provide access to transfer students.
- **Outreach** will be continued through a combination of institutional funding and private sector matching funds. No state funds are proposed for this purpose. However, UC has agreed to provide at least \$12 million per year from existing resources, CSU has agreed to provide at least \$45 million per year from existing resources, and both institutions have agreed to seek additional funding from the private sector.

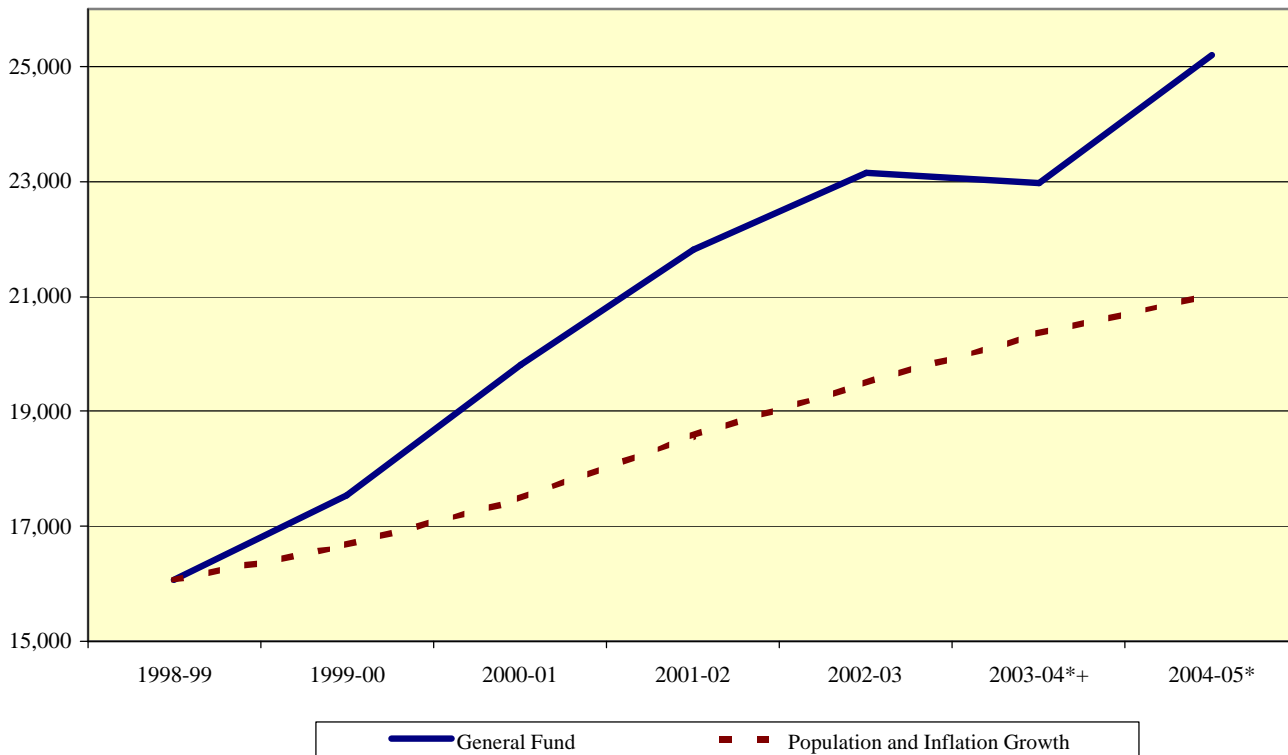
Student Aid Commission (Cal Grants)

- The Governor's January budget included a \$43.7 million augmentation for Cal Grants. The May Revision adds another \$31.9 million to provide full funding for the Student Aid Commissions' revised estimate for 04-05 awards. Total Cal Grant program funding would rise to over \$690 million.
- The January budget proposed to "de-couple" Cal Grant awards from student fee levels such that the grants would no longer cover the full amount of the fees at UC and CSU. The May Revision **rescinds that proposal** and adds \$34.2 million to cover the expected fee increases at those institutions.
- The January budget proposed to fully fund the statutory requirement for 22,500 "competitive" Cal Grant awards each year. The May Revision creates \$5.4 million in General Fund savings by reducing the number of competitive grants to 16,875.
- The May Revision creates \$134 million in one-time General Fund savings by using excess reserves in the Student Loan Operating Fund to offset General Fund expenditures for Cal Grants by an identical amount.
- The Governor's January proposal to decrease the maximum allowable family income for new Cal Grant recipients is unchanged, as is his proposal to reduce the maximum Cal Grant award for students who attend more costly private universities, from \$9,708 to \$5,482.

Health

The May Revision includes \$25.2 billion in General Fund expenditures for Health and Human Services, which equals 32.5 percent of all General Fund expenditures. This expenditure level exceeds the Governor's January proposal that budgeted \$24.6 billion General Fund, or 32.3 percent of the state budget. The following chart reflects growth in General Fund expenditures for Health and Human Services since fiscal year 1998-99.

**Health and Human Services Expenditures
(Millions of Dollars)**



*As proposed in the 2004-05 May Revision.

+ The 2003-04 General Fund reflects one-time savings for accrual-to-cash accounting (\$1 billion) and enhanced federal fiscal relief (\$566.1 million) in the Medi-Cal program.

The May Revision rescinds \$291 million in General Fund reductions that were proposed in January. These reductions have been replaced with savings proposals that total \$292 million General Fund; however, many of the new proposals only generate one-time savings. The May Revision also includes a number of new expenditure proposals. Specific changes are highlighted in the program detail below.

Medi-Cal. The May Revision includes total Medi-Cal expenditures of \$32.8 billion (\$11.9 billion General Fund), which is an increase of \$1.6 billion (\$339 million General Fund) over the budget proposed in January. Caseload will decline 2.1 percent, to 6,695,000 eligibles. General Fund costs have increased by \$3.1 billion over the past five years; however, needed reforms will not be part of the budget process as the Administration is continuing to work on its redesign proposal.

- **General Fund Restorations.** The May Revision includes a General Fund increase of \$624.5 million due to erosions of the Mid-Year and Governor's Budget Spending Reduction Proposals. Several of the key January proposals are being withdrawn, including:
 - Rescinding the Medi-Cal provider rate reduction that was projected to save \$462.2 million General Fund; and
 - Reversing the decision to cap enrollment of immigrants that was projected to save \$17.2 million General Fund.
- **Alternative Solutions.** The May Revision proposes to:
 - Align Medi-Cal pharmacy reimbursement levels with costs by reducing the amount paid for drugs to the Average Wholesale Price minus 20 percent and by increasing the pharmacy dispensing fee from \$3.59 to \$8.30, for General Fund savings of \$79.3 million;
 - Delay the Medi-Cal checkwrite one additional week to the next fiscal year, for one-time General Fund savings of \$143 million;
 - Require counties to reconcile eligibility data discrepancies on a quarterly basis, for General Fund savings of \$9 million;
 - Reconcile eligibility between the state and Los Angeles County, for General Fund savings of \$33.3 million; and
 - Establish a third-party vendor contingency fee contract to validate the accuracy of county eligibility determinations, for General Fund savings of \$2.6 million.
- **New Expenditure Proposals.** The May Revision proposes:
 - A 3-percent rate increase in the Medi-Cal reimbursement for County Organized Health Systems (COHS), which will increase annual General Fund costs by \$15 million; and
 - An increase in state support of \$1 million General Fund for administrative activities related to the Los Angeles County Section 1115 Medicaid Waiver.

Public Health. The May Revision includes a General Fund increase of \$8.7 million (4.4 percent) over the January Budget.

- **General Fund Restorations.** The Governor has rescinded all of the Public Health reductions proposed in his January Budget. The May Revision restores funding to:
 - Reject the proposed enrollment cap for the AIDS Drug Assistance Program (ADAP), which would have saved \$2.8 million General Fund;
 - Remove the proposed enrollment caps for the California Children's Services (CCS) Program and the Genetically Handicapped Persons Program (GHPP), which would have saved \$8.1 million General Fund in the budget year;
 - Avoid implementing a co-payment for the GHPP, which would have saved \$576,000 General Fund;
 - Continue Community Challenge Grants (\$20 million federal TANF funds); and
 - Provide for a reappropriation of funds from the Budget Act of 2003 for Prostate Cancer Treatment (\$6.5 million Tobacco Settlement Fund) and for Cancer Research (\$760,000 Cancer Research Fund).
- **New Expenditure Proposals.** The May Revision proposes increased funding to:
 - Implement the Medical Marijuana Identification Card (MMIC) Program that was mandated in Chapter 875, Statutes of 2003. The proposal is to fund the start-up costs of this program with loans from the Health Statistics special fund (which is fee-supported) of \$983,000 in 2004-05 and \$517,000 in 2005-06 and to establish eight new support positions to create the registry;
 - Develop a long-term strategic plan for West Nile Virus surveillance, at a General Fund cost of \$977,000 and establishment of two new support positions; and

- Allocate increased Proposition 99 revenue of \$8.2 million to augment the following programs: Breast Cancer Early Detection (\$1,650,000); Competitive Grants (\$411,000), Media Campaigns (\$418,000), Local Lead Agencies (\$432,000), California Healthcare for Indigents Program (\$2,855,000), Rural Health Services (\$201,000), and the Tobacco Education and Research Oversight Committee and Evaluation Program (\$97,000). The remaining balance is being shown as a reimbursement to the Board of Equalization (\$1,409,000) and an augmentation of the Unallocated Account (\$680,000).

Healthy Families Program. The May Revision projects overall expenditures to increase by \$33 million (\$13.6 million General Fund) as compared to the January Budget. Caseload is estimated to be 774,000 children by the end of 2004-05. Total expenditures for 2004-05 are estimated at \$872 million (\$319.1 General Fund).

- **Restorations.** The Governor has rescinded his proposal to develop and implement a Two-Tiered Benefit package based on family income; however, the May Revision retains \$750,000 (\$263,000 General Fund) in state support funding that was associated with this proposal. The January Budget did not identify any budget-year savings, but a tiered benefit package would result in major General Fund savings in the out-years.
- **Revised Proposal.** The May Revision retains the proposed increase in premiums for families with incomes between 200-250 percent of the federal poverty level. Monthly premiums would be increased from \$9 per child with a maximum of \$27 for three or more children to \$15 per child and \$45 for three or more children. Families' total out-of-pocket costs would increase from 1.9 percent to 2.3 percent, well below the 5 percent maximum allowed under federal regulations. Higher premiums would be implemented on July 1, 2005; therefore, there are no General Fund savings in the budget year. General Fund savings are estimated at \$5.4 million in 2005-06, and would be even higher in the out-years.

Developmental Disabilities. The May Revision proposes total expenditures of \$3.5 billion (\$2.2 billion General Fund) for services provided through the 21 Regional Centers and the state Developmental Centers. This is an increase of \$68 million (\$46.4 million General Fund) above the January Budget. This increase includes \$15.5 million for Regional Center Operations and \$26.2 million for Regional Center Purchase of Services.

- **Restorations.**
 - The May Revision rescinds the January proposal to contract out for food services at the Developmental Centers, which will cost an additional \$910,000 General Fund.
 - The closure of Agnews Developmental Center is further delayed until June 30, 2006. The May Revision proposes a \$11 million General Fund increase to improve Sonoma Developmental Center and to enhance community placement options in order to transition the residents of Agnews. The Life Services Alternative Project is also increased by \$750,000 in reimbursements from the Regional Centers' budget to assist with this transition.
- **Expenditure Increases.**
 - The May Revision proposes an increase of \$1.8 million General Fund for the newly bid and awarded janitorial contracts for the Developmental Centers.
 - Increased employee compensation costs at the Developmental Centers are budgeted at \$7.3 million General Fund.

Mental Health. The May Revision includes a net increase in funding for long-term care and state hospitals of \$19.5 million (\$14.2 million General Fund). The judicial commitment caseload is expected to increase from 4,327 to 4,580 patients. The May Revision also includes a reduction of \$21.8 million (\$143,000 General Fund) for community mental health services.

➤ **Restorations.**

- The May Revision rescinds the Governor's January proposal to "rebase" maximum provider rates in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, which will increase budget-year costs by \$60 million (\$40 million General Fund).
- The Governor has rescinded the enrollment cap on persons classified as Not Guilty by Reason of Insanity (NGI). State hospitals will add 134.1 staff positions to accommodate this increased caseload, at an increased General Fund cost of \$15.7 million.

➤ **Alternative Solutions.**

- The May Revision increases the counties' share-of-cost for the EPSDT Program from 10 percent to 20 percent, for General Fund savings of \$12.6 million. Small counties will not be subject to this increased county share.
- The May Revision delays the activation of Coalinga State Hospital from August 2005 to September 2005, for General Fund savings of \$9.5 million.

Human Services

CalWORKs. The May Revision provides \$6.4 billion for California Work Opportunity and Responsibility to Kids (CalWORKs) programs. Caseload is expected to be 465,400 in 2004-05, which is 3,700 below the January estimate.

- **Restorations.** The May Revision restores Temporary Assistance for Needy Family (TANF) funding for Community Challenge Grants (\$20 million) and a portion of the child care reform proposal (\$13 million). These restorations are also described in the health and education sections of this document.

Supplemental Security Income/State Supplementary Payment (SSI/SSP). The May Revision proposes \$3.4 billion for SSI/SSP in 2004-05, an increase of \$25.3 million above the January estimate. The May Revision estimates caseload of 1.2 million in 2004-05.

- **Caseload and Grant Growth.** The May Revision includes an increase of \$24.5 million for caseload growth and higher average grants in the SSI/SSP program. The Administration continues to assume suspension of the January 2005 state COLA and non pass-through of the federal COLA.

In-Home Supportive Services (IHSS). The May Revision proposes an increase of \$124.8 million General Fund for the IHSS program in 2004-05 above the Governor's January Budget. The caseload is estimated to be 358,400 recipients in 2004-05, an increase of 56,000 over the Governor's Budget.

- **Restoration and New Waiver Proposal.** The Governor proposed in January to eliminate the state-only Residual Program for savings of \$365.8 million. The program serves 75,000 individuals whose circumstances or required services disqualify them from federal funding. For example, (1) only domestic chores are needed (no medical services), (2) services are provided by a relative (parent, spouse), or (3) the recipient is severely disabled and requires 24-hour care. The Administration has rescinded the proposed elimination of the program, and, instead, will pursue a federal waiver for the federal government to assume a share-of-cost of the program. The May Revision includes funding for 14.5 positions to implement and manage the waiver. This alternate proposal will result in a net increase of \$135.2 million General Fund from the Governor's Budget.
- **Restoration of Domestic Service Reform.** The May Revision proposes to pursue a federal waiver to eliminate coverage for domestic services when consumers reside with other family members. In the January Governor's Budget, this proposal was scheduled to begin in 2004-05. The May Revision assumes that the proposal will be implemented in the 2005-06 fiscal year and restores \$26.3 million General Fund for the program in 2004-05.

- **Fraud, Waste, and Abuse.** The May Revision includes a decrease of \$14 million General Fund due to implementation of the IHSS Quality Assurance Initiative. The proposed initiative would perform fraud investigation and program oversight. Savings are net of a \$5 million increase for 18 positions and increased county administration costs. As a result of this proposal, the Administration projects savings of \$92.3 million General Fund, beginning in 2006-07.

Food Stamp Program Restoration. The May Revision increases funding for the Transitional Food Stamp program by \$3.5 million General Fund. In January, the Governor had proposed to repeal legislation that expanded eligibility for the Transitional Food Stamp Program. However, the Administration now has rescinded the proposal. Consequently, caseload for the California Food Assistance Program will increase by 81,000 and federally funding for food coupons will increase by \$203 million.

Block Grant for Immigrant Programs Rescission. The May Revision augments the January Governor's Budget by \$5.7 million due to the rescission of a proposal to restructure and consolidate human service programs that provide services to immigrants.

Foster Care. The May Revision provides \$10.7 million less for Foster Care expenditures in 2004-05. The decrease is a net result of reduced caseload and higher than expected costs as a result of the Rosales v. Thompson court decision, which expanded the linkage requirements for federal foster care eligibility. The May Revision funding request also reflects:

- **Foster Care Reform.** The May Revision increases anticipated savings from a series of new foster care reforms proposed in the Governor's Budget and through previous legislation. The Governor's proposals are expected to save \$15.2 million and include (1) re-structuring and standardization of foster care rates, (2) stronger adoption and guardianship incentives, (3) reducing administrative requirements for redeterminations of federal foster care eligibility from every six months to annually, and (4) increased use of audits to ensure program integrity. The May Revision also includes savings of \$17.3 million for already chaptered legislation that has reduced the need for placement in out-of-home care and shortened the length of stay in placement.
- **Augmentation for Future Reform.** The May Revision includes \$2.3 million (\$1.3 million General Fund) and 14 new positions to support two long-term reform proposals with no savings assumed in 2004-05: Performance Based Contracts and a Title IV-E Child Welfare Waiver proposal for increased federal financial participation.

Child Welfare Services (CWS). The May Revision proposes to charge counties a 30 percent share-of-cost for additional county social workers that were required due to SB 2030, Costa, 1998. This is the same county share-of-cost that it currently charges for the core CWS program, and it would result in General Fund savings of \$17.1 million.

Department of Child Support Services. The May Revision includes a net increase of \$8.2 million, comprised of the following major adjustments:

- **Information Technology Expansion.** The May Revision proposes a \$6.2 million increase for interface modifications necessary to achieve federal certifications for the state's Child Support Automation System. These modification are required to achieve federal certification and eliminate penalties of more than \$220 million General Fund per year.
- **Federal Relief.** Although not assumed in the May Revision, the Administration has announced that the federal government may allow the state to defer its 2004-05 penalty payment until September 30, 2005. This would result in additional savings of \$220 million General Fund and \$55 million for counties in 2004-05.

- **Decreased Federal Incentive Funding.** The May Revision assumes a loss of \$888,000 because the state has failed to earn federal incentives related to specific performance measures. This funding will be backfilled with General Fund to maintain local program administration.

Local Government

State-Local Government Agreement. The May Revision proposes a General Fund savings of \$1.3 billion in both 2003-04 and 2004-05 as a result of to revising the state-local fiscal relationship by implementing the following:

- For 2004-05 and 2005-06 only, replacement property taxes that cities and counties receive will be reduced by \$700 million. In future years, local governments will receive sufficient property tax to fully replace the state's vehicle license fee subvention. Also, for these two years redevelopment agencies will transfer \$250 million in property tax revenue to schools, and special districts will transfer \$350 million **for a total \$1.3 billion in savings to the state.** This will replace the proposal included in the 2004-05 Governor's Budget. A comparison of the January 10 proposal and the May Revision proposal is provided in Table 6 below:

Table 6

State-Local Government Agreement Comparison			
<u>(Dollars in Millions)</u>	<u>Jan 10 Budget</u>	<u>May Revision</u>	<u>Difference</u>
Counties	\$909	\$350	-\$559
Cities	\$188	\$350	+\$162
Redevelopment Agencies	\$135	\$250	+\$115
Special Districts	<u>\$105</u>	<u>\$250</u>	<u>+\$245</u>
Total	\$1,337	\$1,300	-\$37

- The Vehicle License Fee tax rate would be permanently reduced from 2% to the existing rate of 0.65% of the value of the vehicle. This will ensure that taxpayers will retain the current tax relief that they are receiving, but permit the elimination of the General Fund offset program. In order to protect local governments, the reduction in vehicle license fees to cities and counties from this rate change will be replaced by an increase in the amount of property tax revenue they receive.
- A constitutional amendment for the November 2004 ballot is proposed to protect local governments' property, sales, and vehicle license fee revenues in future years. Under the agreement, local governments will be provided relief from unfunded state mandates. As proposed, within one year of the enactment of a mandate, a statewide estimate of cost would have to be prepared. If this cost estimate is not fully funded in the subsequent State budget, the mandate would be repealed. Also, the existing mandate debt would be repaid to local governments over five years, beginning in 2006.

COPS. The May Revision proposes that Citizens Option for Public Safety (COPS) program funding be used to cover mandated cost associated with Peace Officers Procedural Bill of Rights. Any remaining funds would be used in accordance with current law. However, the Administration has recently indicated that it is not the intent that this proposal result in the reduction of COPS-funded law enforcement personnel.

Statewide Issues

Reform the State's Real Property Asset Management Process. The May Revision proposes trailer bill language that would establish a policy and process to consolidate the state's real property assets. According to the Administration, there are over a dozen boards, conservancies, commissions, and departments that have independent authority to acquire, trade, develop, and dispose of real property. This reform will allow the state to better identify and focus on high value properties that are no longer needed by the state. The Administration assumes the state will realize \$50 million in increased revenue in 2004-05 as a result of this reform.

Augmentation for Employee Compensation. The May Revision recommends the elimination of all funding for employee compensation increases included in existing collective bargaining agreements. Legislative Counsel recently opined that the Legislature has the authority to alter the amount previously approved to meet the Memorandums of Understanding for the various bargaining units. Considering the severe budget shortfall, the Administration has requested that the Legislature use this authority to eliminate all pay raises and other employee compensation increases scheduled to begin in 2004-05. ***This proposal would generate savings of \$464 million General Fund in 2004-05.***

Restoration of Anticipated Contract Savings. The May Revision restores \$50 million for savings that were not achieved in the Budget Act of 2003 through efficiencies in areas such as contracting, leasing, and procuring goods and services. The Administration indicates that these savings were counted toward other budget reduction efforts, primarily Control Section 4.10.

Strategic Sourcing. The May Revision proposes a new Control Section (33.50) to capture \$96 million General Fund in anticipated savings in 2004-05 through a new procurement methodology. According to the Administration, Strategic Sourcing is a procurement reform for purchasing goods and services basis with an emphasis on saving through purchasing in bulk. This Control Section requires the Department of Finance to submit an implementation timeline and a report of proposed savings prior to the implementation of the Control Section.

Punitive Damages. The May Revision proposes to amend existing law to limit the number of punitive damages that may be recovered from a defendant to one. It would also provide that the State would receive 75 percent of punitive damage awards. The annual revenue associated with this proposal is estimated at \$450 million. These funds would be deposited in a Public Benefit Trust Fund and would, via proposed Budget Act Control Section 34.50, authorize the Department of Finance to reimburse programs funded by the General Fund, under specified circumstances, for purposes consistent with the nature of the punitive damage award.

Labor and Workforce Development

Department of Industrial Relations (DIR). The May Revision includes the following major adjustments related to the DIR:

- The May Revision includes an increase of \$20.1 million and 249 positions to implement changes associated with the Workers' Compensation reform bills passed in 2003. The Administration has also proposed trailer bill language to augment the DIR budget by up to 10 percent to facilitate the implementation of this year's workers' compensation reform. All funding for workers' compensation oversight is now funded through employer fees.
- The May Revision proposes to eliminate the Industrial Welfare Commission, which is currently responsible for issuing orders governing wages and labor conditions. This proposal will generate

savings of \$235,000 in 2004-05. Under the proposal, the Division of Labor Standards and Enforcement within the DIR would take over these functions.

Employment Development Department (EDD). The May Revision includes a reduction of \$877.4 million for a projected decrease in Unemployment Insurance (UI) benefit payments. However, the Administration has requested budget bill language allowing the Director of the EDD to augment state funds for the purpose of making interest payments on federal loans to the UI Fund. California started borrowing from the federal government on April 1, 2004 to restore solvency to the UI Fund.

Transportation

Proposition 42. Enacted by the voters in the March 2002 election, Proposition 42 amended the State Constitution to permanently dedicate sales taxes on gasoline for transportation projects. Specifically, the Proposition requires the transfer of gasoline sales tax revenues from the General Fund to a newly created Transportation Investment Fund (TIF). The Proposition also allows the Administration and the Legislature (if two-thirds of the membership approve) to suspend the transfer of sales tax revenues in a fiscal year in which the transfer will result in a significant negative impact on government functions funded by the General Fund. The transfer is partially suspended in the current fiscal year.

For fiscal year 2004-05, the May Revision proposes to suspend the entire Proposition 42 transfer (\$1.206 billion) and retain the money in the General Fund to be used for non-transportation purposes. The proposal also includes trailer legislation to impose a statutory requirement for repayment of this amount by June 30, 2008.

Traffic Congestion Relief Program (TCRP). The TCRP is a carve-out for transportation projects of former Governor Davis. Unlike projects in the State Transportation Improvement Plan (STIP), where projects are prioritized by regional planning agencies and then competitively selected for funding by the California Transportation Commission, the 141 projects in the TCRP were hand-picked by the Davis administration and by-passed the normal prioritization and selection process. Republicans have traditionally disapproved of the TCRP because of its pork-barrel approach to transportation funding, and because over 60 percent of those funds (which come from sales taxes paid by motorists) would be used to fund non-highway projects such as rail and transit.

In his mid-year reduction proposal for 2003-04, the Governor proposed to repeal the TCRP, but allow these projects to be funded through the STIP or other funding sources if local transportation agencies deem them a high priority. This proposal would also result in a transfer of \$189 million to the General Fund.

The May Revision withdraws the mid-year proposal to repeal the TCRP and the transfer of \$189 million. Instead, it proposes an augmentation of \$163 million in 2004-05 to fund projects that have an existing allocation. This amount would constitute a repayment of previous loans made to the General Fund from the TCRP, discussed below in "*Repayment of transportation loans*". Trailer legislation is also proposed that would condition future TCRP allocations, on assessments of a project's impact on the economy, movement of goods, and leveraging of funds.

Repayment of transportation loans. Between fiscal years 2001-02 and 2002-03, the General Fund borrowed \$1.383 billion from the Transportation Congestion Relief Fund (TCRF), which borrowed \$474 million from the State Highway Account (SHA) and \$275 million from the Public Transportation Account (PTA). The Budget Act of 2003 repaid \$100 million to the SHA.

The May Revision proposes to repay a total of \$383 million to the various transportation funds as follows:

- \$163 million to the TCRF to fund projects that have an existing allocation. See discussion in *“Traffic Congestion Relief Program”*.
- \$184 million to the SHA. When combined with the \$100 million repayment in the current fiscal year, the outstanding loan balance is \$190 million.
- \$36 million to the PTA, leaving an outstanding loan balance of \$239 million.

Additional transportation loan repayments from tribal gaming revenues. The Governor’s Budget anticipated that the State would receive \$500 million from the renegotiation of tribal gaming compacts, and these funds would be deposited into the General Fund.

Negotiations are currently in progress. However, the Administration anticipates that there may be additional one-time revenues above the \$500 million currently budgeted, and proposes to use any revenues in excess of that amount for transportation projects. Specifically, the May Revision includes budget control language that would accelerate repayment of outstanding loans from transportation in the event additional revenues are realized from tribal gaming renegotiations.

Change in accounting to yield \$200 million. The Governor’s mid-year proposals included a change in cash management of transportation funds that was estimated to generate approximately \$800 million. Of this amount, \$600 million would be transferred to the General Fund, and \$200 million would fund transportation projects. Due to delayed federal reauthorization, the accounting change would generate only \$200 million. The May Revision reflects this adjustment and proposes to utilize the \$200 million entirely for transportation projects, with no transfer to the General Fund.

GARVEE Bonds. Grant Anticipation Revenue Vehicles (GARVEE Bonds) are debt instruments that pledge future federal highway funds to meet debt service requirements. The Budget proposed to appropriate \$800 million in 2004-05 from GARVEE bond proceeds for highway and road construction and improvements. Although this approach is more costly than pay-as-you-go, it infuses funds into transportation and allows projects to continue. Absent funding, projects could come to a halt in the near future, resulting in costly contract termination penalties and potentially significant job losses. (Employment statisticians estimate that, for every \$1 billion spent on transportation, approximately 26,000 jobs are created.) The Budget also proposed to appropriate \$804.4 million for payment of principal and interest on GARVEE bonds already approved by the California Transportation Commission.

The May Revision proposes to eliminate the cap on the amount of GARVEEs that can be issued in 2004-05. However, it requires the California Transportation Commission, before allocating projects next year that would result in bond issuance exceeding \$800 million, to consult with the Department of Finance and specified state agencies on the effect that such an issuance would have on future federal funding commitments. The purpose of such a review would be to safeguard against the over-bonding of federal funds and ensure that new transportation projects are initiated.

Public Transportation Account (PTA) “spill-over” funds. Current law contains an arcane formula that requires the General Fund to transfer sales tax revenues to the PTA under specified conditions. This transfer is often triggered during periods of high gasoline prices and is used to fund rail and mass transit projects. The May Revision proposes to transfer \$140 million in “spill-over” funds to the TCRF to repay various prior transportation loans. See discussion under *“Repayment of transportation loans”*. This proposal would, in effect, divert a portion of the money from public transit projects to fund roads and highways.

Resources, Environment and Energy

Secretary for Resources. As part of the agency's reorganization plan, the May Revision proposes to terminate the California Legacy Project and eliminate 2.0 positions. Funding for the project and the positions are being redirected in the current year to support the operations of the agency, subsequent to a \$1.3 million General Fund reduction in the 2003 Budget Act. This proposal would terminate the project and positions, to allow for a permanent redirection of those funds.

Conservation Corps – Los Padres Residential Facility. The Governor's Budget proposed to close and downsize several conservation corps centers that provide work training to young men and women between the ages of 18 and 23. This proposal was estimated to generate approximately \$10.5 million in General Fund savings.

However, upon further consideration of the need for firefighting assistance and conservation efforts in the San Luis Obispo region, the May Revision proposes to restore 14.0 positions to allow the Los Padres residential facility to continue operations. No new funding is needed due to redirections and savings from cuts to administrative functions.

Forestry and Fire Protection – King Air Aircraft. The May Revision proposes to eliminate funding for the King Air Aircraft, resulting in General Fund savings of \$400,000. This aircraft received significant public attention when the media reported that the Department of Forestry and Fire Protection had its own plane and was using it to fly the director and department employees to meetings throughout the state.

San Francisco Bay Conservation and Development Commission. The May Revision includes provisional language to allow the Commission to increase fees to support 20 percent of its regulatory programs. These fees are imposed on permit applications for commercial and residential development of lands located along the San Francisco Bay. Currently, permitting fees range from \$50 to \$10,000. This proposal would increase those fees to \$160 and \$32,100.

Energy. The May Revision includes no adjustments for energy agencies. The Governor's Budget proposed to eliminate the California Power Authority and suggested further consolidations were under review. The California Performance Review has completed its work and any reorganization of energy agencies may be forthcoming in next year's budget proposals.

Justice/Judiciary & Public Safety

Department of Justice. The May Revision proposes a budget year General Fund augmentation of \$7.3 million to fund a structural budget deficit due to increased workload in the Criminal Law, Civil Law and Public Rights Divisions. An additional augmentation of \$1.5 million, General Fund, is proposed to address 1986 and 1997 California flood litigation, and \$2.7 million, General Fund, is being reappropriated to complete the work on the Armed Prohibited Persons Database System.

Judicial Council. The May Revision proposes a \$4.3 million General Fund increase to the Judicial Council's budget, to fund an increase in judges salaries and benefits (\$531,000), employees salaries (\$1.5 million), and an increase in security costs provided to the Council and the Appellate Courts by the Highway Patrol (\$953,000).

State Trial Court Funding. The May Revision proposes a current-year General Fund augmentation of \$31.6 million to address a shortfall in fee revenues and an net budget-year increase of \$89.6 million General Fund to fund the additional costs of existing collective bargaining agreements and retirement

rate changes. This amount includes an \$11 million unallocated reduction and an Administration proposed savings of \$9.8 million. The May Revision also proposes the following General Fund augmentations for trial courts:

- \$28.8 million for increased salaries and benefits costs for Sheriff's that provide security for the courts,
- \$27.6 million for to fund increases in Judge's retirement system costs,
- \$23.1 million for increased statewide trial court staff retirement costs,
- \$11.5 million for non-salary driven costs of employee benefit plans,
- \$9.6 million to cover the costs of salaries and benefits under existing labor agreements,
- \$8.1 million for Judges salaries and benefits,
- \$1.5 million for increased amounts charged to the courts by counties,
- \$254,000 to fund the cost of extraordinary homicide trials.

The Administration proposes \$9.8 million in operational costs savings to the courts that include the following:

- -\$6.4 million for conversion to electronic reporting through current court reporter attrition,
- -\$2.3 million by eliminating juror pay for governmental employees,
- -\$372,000 through the reduction of the number of preemptory challenges,
- -\$312,000 by eliminating the governmental exemption from civil court filing fees,
- -\$241,000 through the reduction of jury panel sizes,
- -\$173,000 by decreasing the jury size in limited civil cases.

The May Revision also proposes budget trailer bill language to require the Judicial Council to establish a working group to ensure state-level approval of local union negotiations that will require additional funding.

California Law Revision Commission. The May Revision proposes a budget year reduction of \$256,000 and the elimination of the Commission, effective January 1, 2005. The essential functions are proposed to be transferred to the Legislature.

Youth and Adult Correctional Agency. The May Revision proposes a \$1.7 million augmentation to provide increased oversight and policy direction to the entities under the Agency's supervision. This is being funded through a corresponding reduction in the Department of Corrections' and Department of the Youth Authority's budgets. This represents a 100-percent increase in the Agency's budget.

Office of the Inspector General. The May Revision proposes \$4.9 million General Fund and 25 positions to establish an Office of Independent Review within the office of the Inspector General. This is in addition to the April Finance Letter request that included \$3.3 million General Fund and 28 positions to restore the Office in 2004-05. The Governor's January Budget proposed elimination of the Office.

Department of Corrections (CDC). The May Revision proposes a net increase of \$114.6 million General Fund in the current year and \$167.7 million General Fund in the budget year. The proposal identifies a savings of \$476.7 million in the budget year (\$400 million was included as a placeholder reduction in the Governor's Budget). This savings is based upon a renegotiation of the Unit 6 collective bargaining agreement for an ongoing savings of \$300 million (See Augmentation for Employee Compensation Issue). The other proposed program savings that make-up the \$476.7 million include:

medical program improvement savings of \$48.0 million; operational efficiencies and lease revenue adjustments of \$43.4 million; and expansion of various parole accountability and prerelease and post release program reforms, for an estimated net savings of \$85.4 which are detailed below.

- An augmentation of \$16.2 million and 131.5 positions to expand the restitution program, Substance Abuse and Treatment (STAR) program, the Police and Corrections Teams (PACT) program, Law Enforcement Automated Database System (LEADS), electronic monitoring services, Global Positioning Satellite (GPS) monitors, and provide for program evaluation.
- An anticipated savings of \$101.6 million as a result of reduced recidivism or earlier parole discharge attributable to expansions of various programs including the restitution program, STAR program, and Residential Multi-Service Centers. Additional savings would result by modification of parole discharge procedures.

Operational efficiencies and lease revenue adjustments proposed to save \$43.4 million include:

- -\$11.3 million as a result of streamlining existing processes, prioritizing workload, and eliminating vacant positions and operating expenses and equipment;
- -\$18.3 million by reducing basic correctional officer academy training to one class and utilize community college courses in 2005-06;
- -\$6.8 reduction in CDC's lease revenue item;
- -\$3.2 million by streamlining classification services workload;
- -\$1.4 by providing energy audits to reduce energy expenditures;
- -\$1.3 million as result of establishing centralized purchasing unit; and
- -\$1.3 by providing two hot meals on weekends and holidays.

Medical program improvements proposed to yield \$48.0 million in savings include:

- -\$26.1 million by implementing contract medical reforms as proposed by the Bureau of State Audits including improved contract utilization review and expedited payments;
- -\$14.5 million by reimbursing hospitals (-\$12.5 million), emergency medical services (-\$1.7 million), and ambulance services (-\$250,000) for providing treatment to inmates at Medi-cal rates;
- -\$4.8 million by modifying prescribing practices for high cost drug categories;
- -\$1.4 million by reclassifying psychiatrists to nurse practitioners; and
- -\$1.2 million to implement a standardized treatment for hepatitis C treatment.

The May Revision proposes a General Fund increase of \$63.7 million for CDC that includes:

- \$22.2 million and 264 positions to implement the Court Order associated with **Jerry Valdivia, et al., v. Arnold Schwarzenegger, et al.**, which held that parole revocation procedures violated due process. (See Board of Prison Terms for Corresponding Issue);
- \$18.2 million and 114.9 positions to fund increased medical guarding and transportation of inmates;
- \$16.8 million and 193 positions to establish standardized staffing levels in administrative segregation overflow units;
- \$4.6 million and 10 positions for Business Information Systems (BIS) Enterprise Resources Solution to consolidate CDC business data; and
- \$1.9 million and 20 positions to provide for vertical prosecution in employee disciplinary matters and improve the quality and timeliness of investigations.

Finally, the May Revision proposes population-related augmentations of \$114.6 million in the current year, and \$175.8 million in the budget year for CDC. These proposed adjustments reflect increases above the Governor's Budget projected Average Daily Population (ADP) of inmates by 5,240 in current year, and by 8,387 in budget year. This is partially offset by the reduction in parolee ADP of 5,120 in the current year, and 6,411 in the budget year. Most of the increases in the institutional projections are related to implementation delays of several 2003-04 reform proposals.

Board of Prison Terms. The May Revision proposes 134 positions and \$35.4 million to implement the remedial plan pursuant to the **Jerry Valdivia, et al., v. Arnold Schwarzenegger, et al.** Court Order (See Department of Corrections for Corresponding Issue).

Department of the Youth Authority. The May Revision indicates that the Prison Law Office is suing the Youth Authority in several areas regarding the treatment of wards. Once the settlement negotiations are complete, the Youth Authority anticipates the need for additional resources. The May Revision proposes \$3.1 million in the current year since the overall population decline was less than estimated in the Governor's Budget. An augmentation of \$6.1 million is proposed in the budget year as a result of an increase in the projected population above that anticipated in the Governor's Budget. An additional budget year augmentation of \$3.5 million is also proposed to increase the budgeted relief coverage for employees attending off-post training. 2003-04 year-end ward population is estimated to be 3,950, and 2004-05 year-end ward population is estimated to be 3,755 further continuing the downward Youth Authority population trend.

State Criminal Alien Assistance Program (SCAAP) Funds. The May Revision assumes that the State will receive \$75.2 million in the current year, and \$78.2 million in the budget year in federal funds for the costs of incarcerating undocumented immigrants. This is an increase of \$9 million and \$12 million, respectively, above the Governor's budget estimates.

General Government

Franchise Tax Board. The May Revision proposes the following General Fund augmentations:

- \$17.5 million (\$6 million General Fund and \$11.5 million Reimbursements) and 9 positions in order to continue the Child Support Enforcement (CCSAS) component database. This is in addition to the \$33.8 million (\$15.5 General Fund) requested in the Governor's Budget.
- \$10.2 million and 72 temporary help positions to administer a personal income and corporate tax amnesty program that is supposed to bring in an estimated \$185 million in revenue.
- \$4.3 million for contracts with tax shelter experts and 42 auditor staff to work on abusive tax shelter cases which is supposed to bring in an estimated \$28 million in revenue.
- \$1.3 million to defend a lawsuit filed by a taxpayer in Nevada. The Department of Justice notified the Board that they will no longer be representing them and gave permission for the Board to seek private counsel.

State Controller's Office. The May Revision proposes to withdraw the April proposal to establish a 6 percent fee on approved property claims cover the costs of administering the Unclaimed Property Program. The program costs of \$5.1 million are now proposed to be funded by retaining interest on approved claims.

The Administration is also withdrawing its proposal to transfer Medi-Cal audits to the Department of Health Services which is being funded at \$1.8 million (\$929,000, General Fund and \$929,000 Reimbursements).

Board of Equalization. The May Revision proposes to restore \$8.3 million (\$5.4 million General Fund and \$2.9 Reimbursements) to fund 105 positions that would have been eliminated resulting in a loss of revenue collection of \$29.7 million (\$19.3 million General Fund and \$10.4 million local revenue). Also, this proposal would garner another \$8.5 million in revenue collections in 2004-05 and \$18.9 million in 2005-06 as a result of the Board being able to fill 55 collector positions. Finally, \$4.9 million (\$564,000 General Fund and \$4.3 million special funds) is proposed to replace the current cigarette tax stamps and meter impressions with stamp or meter impression that can be read by a scanning device. The Board estimates increased revenue of \$28.2 million (\$5.6 General Fund) annually as a result of decreased tax evasion.

Secretary for Business Transportation and Housing. The May Revision proposes an increase of \$600,000 General Fund for the state to develop an online film permitting system. Although budgeted as General Fund, the Administration proposes to transfer \$1.1 million from the Film California First Fund to offset the entire cost of the program and provide additional General Fund revenue.

Homeland Security. The May Revision reflects an increase of \$156 million in federal funds for anti-terrorism prevention and homeland security grants to state and local agencies. The proposal also includes an increase of \$1.9 million federal funds to provide 13 positions for the California Office of Homeland Security. These positions will coordinate detection and emergency response protocols between federal, state and local law enforcement agencies as well as advise the Governor.

Senate Republican Fiscal Staff Assignments

Jeff Bell, Staff Director
(916) 323-9221

Laurie Thompson, Committee Assistant
(916) 323-9221

<u>Assignment Area</u>	<u>Consultant</u>	<u>Phone</u>
Education	Cheryl Black	324-1031
Public Safety & Judiciary, Local Government	Doug Carlile	324-5226
Transportation, Resources, Environment, & Energy	Therese Tran	324-5537
Health/Veterans Affairs	Sharon Bishop	322-3213
Human Services/ General Government	Eric Swanson	324-5237

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